

**BENTON HARBOR HOUSING COMMISSION
BENTON HARBOR, MICHIGAN**

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2005
AND
REPORTS ON INTERNAL CONTROL AND
COMPLIANCE**

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Benton Harbor Housing Commission	County Berrien
Fiscal Year End September 30, 2005	Opinion Date February 21, 2007	Date Audit Report Submitted to State March 24, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

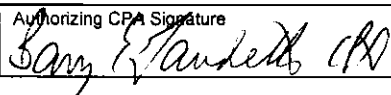
YES NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input checked="" type="checkbox"/>	Report on Internal Controls and Compliance	
Certified Public Accountant (Firm Name) Barry E. Gaudette, CPA, PC		Telephone Number (231) 946-8930	
Street Address 1107 E. Eighth Street		City Traverse City	State MI
		Zip 49686	
Authorizing CPA Signature 		Printed Name Barry E. Gaudette, CPA	License Number 11050

BENTON HARBOR HOUSING COMMISSION
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INTRODUCTION

Independent Auditor's Report

Board of Commissioners
Benton Harbor Housing Commission
Benton Harbor, Michigan

I have audited the accompanying financial statements of the business-type activities of the Benton Harbor Housing Commission, Michigan, a component unit of the City of Benton Harbor, as of and for the year ended September 30, 2005, which collectively comprise the Housing Commission's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Housing Commission's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Benton Harbor Housing Commission, Michigan, as of September 30, 2005, and the respective changes in financial position and cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Benton Harbor Housing Commission
Independent Auditor's Report
Page Two

In accordance with *Government Auditing Standards*, I have also issued my report dated February 21, 2007, on my consideration of Benton Harbor Housing Commission, Michigan's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of my audit.

The management's discussion and analysis comparison information on pages 3 through 7, are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming an opinion on the financial statements that comprise Benton Harbor Housing Commission, Michigan's basic financial statements. The accompanying financial data schedule is presented for the purpose of additional analysis and is not a required part of the basic financial statements of the Housing Commission. The accompanying schedule of expenditures of federal awards, is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of Benton Harbor Housing Commission, Michigan. The combining financial statements, schedule of expenditures of federal awards, and the financial data schedule have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.



February 21, 2007

BENTON HARBOR HOUSING COMMISSION
BENTON HARBOR, MICHIGAN
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD & A)
September 30, 2005
=====

The Benton Harbor Housing Commission, created in 1950, by the City of Benton Harbor provides housing to meet the community's needs for affordable low-income housing. As management of the Housing Commission, we offer readers this narrative overview and analysis of the financial activities of the Housing Commission for the fiscal year ended September 30, 2005. We encourage readers to consider the information presented here in conjunction with the Housing Commission's financial statements.

Financial Highlights

The financial statements for Benton Harbor Housing Commission consists of four programs. The first is owned housing, consisting of 276 units of public housing, the second is the capital funding program, and the third is the housing choice voucher program consisting of 128 qualifying low-income residents for rental housing, and the Housing Commission has begun a HOPE VI program that was approved on July 8, 2004.

Benton Harbor Housing Commission had total revenues of \$3,904,542 that includes \$589,891 in rental payments and \$3,301,508 in federal assistance. Total revenues increased by \$1,322,827 from the prior year, in part, because of an increase in capital grants by \$739,442 due to an increase in capital projects and the start of the HOPE VI project, which consisted of \$419,168 of the increase. Part of the increase was from an increase of \$198,801 in the operating subsidies and some came from the federal government funding the Housing Choice Voucher program by an additional \$197,112. Part of the reason for the increase in operating subsidies and the Housing Choice Voucher program was because of the demolition of 94 low rent units, of which 72 vouchers will be issued to relocate tenants. This is the main reason that rent income decreased by \$101,187 from the prior year. Also, vacancies have been rising.

Total operating expenses were \$2,997,790, that includes \$734,705 in administrative expenses, \$335,468 in utilities, \$543,725 in ordinary maintenance and operation, \$178,923 in general expenses, \$465,852 in housing assistance payments, and \$667,444 in depreciation expense. The operating expenses decreased by \$318,218, in part, because of the elimination of the Drug Elimination program and the reduced amount spent on maintenance contracts and materials compared to the prior year.

The assets of the Housing Commission exceeded its liabilities at the close of the most recent fiscal year by \$9,122,393. The Housing Commission's total net assets increased by \$906,752 from the prior year; the increase is equal to the change in net assets

Financial Highlights (continued)

for the year.

Total assets of the Housing Commission were \$9,472,435; this is a net increase of \$858,323 from the prior year as a result of the net difference between depreciation \$667,444 and net additions of \$1,313,996 and the overfunding in the Housing Choice Voucher program by the federal government. The current assets increased by \$198,028 and is largely because of the overfunding of the Housing Choice Voucher program and the resulting increase in cash of \$199,519 in that program.

Overview of the Financial Statements

The financial statements included in this annual report are those of a special-purpose government engaged only in a business-type activity. The following statements are included:

- * Statement of Net Assets - reports on the Housing Commission's current financial resources with capital and other assets and other liabilities.
- * Statement of Activities - reports the Housing Commission's operating and non-operating revenues, by major source along with operating and non-operating expenses and capital contributions.
- * Statement of Cash Flows - reports the Housing Commission's cash flows from operating, investing, capital, and non-capital activities.

Financial Analysis of the Housing Commission

The following combined condensed balance sheets show a summary of changes for the years ended September 30, 2005 and 2004.

	<u>2005</u>	<u>2004</u>	<u>Net Change</u>
Current assets	\$ 621,311	\$ 423,283	\$ 198,028
Capital assets	<u>8,851,124</u>	<u>8,190,829</u>	<u>660,295</u>
Total assets	<u>\$9,472,435</u>	<u>\$8,614,112</u>	<u>\$ 858,323</u>
Current liabilities	\$ 303,981	\$ 334,993	\$ (31,012)
Noncurrent liabilities	<u>46,061</u>	<u>63,478</u>	<u>(17,417)</u>
Total liabilities	<u>350,042</u>	<u>398,471</u>	<u>(48,429)</u>
Net assets:			
Invested in capital assets	8,851,124	8,190,829	660,295
Unrestricted	<u>271,269</u>	<u>24,812</u>	<u>246,457</u>
Total net assets	<u>9,122,393</u>	<u>8,215,641</u>	<u>906,752</u>
Total liabilities and net assets	<u>\$9,472,435</u>	<u>\$8,614,112</u>	<u>\$ 858,323</u>

The following table summarizes the Statement of Activities of the Housing Commission for the years ended September 30, 2005 and 2004.

	<u>2005</u>	<u>2004</u>	<u>Net Change</u>
Operating revenues:			
Dwelling rent	\$ 541,371	\$ 642,558	\$ (101,187)
Nondwelling rent	<u>48,520</u>	<u></u>	<u>48,520</u>
Total operating revenues	<u>589,891</u>	<u>642,558</u>	<u>(52,667)</u>
Operating expenses:			
Administration	734,705	834,889	(100,184)
Tenant services	20,080	39,798	(19,718)
Utilities	335,468	324,267	11,201
Ordinary maintenance and operation	543,725	720,280	(176,555)
Protective services	51,143	65,880	(14,737)
General expenses	178,923	184,783	(5,860)
Casualty losses	450	1,400	(950)
Housing assistance payments	465,852	488,069	(22,217)
Depreciation	<u>667,444</u>	<u>656,642</u>	<u>10,802</u>
Total operating expenses	<u>2,997,790</u>	<u>3,316,008</u>	<u>(318,218)</u>
Non-operating revenue:			
Interest income	5,381	1,001	4,380
Other income	6,541	33,664	(27,123)
Fraud recovery	1,221		1,221
Capital grants	1,326,437	586,995	739,442
Operating grants	<u>1,975,071</u>	<u>1,317,497</u>	<u>657,574</u>
Total nonoperating revenue	<u>3,314,651</u>	<u>1,939,157</u>	<u>1,375,494</u>
Change in Net Assets	<u>\$ 906,752</u>	<u>\$ (734,293)</u>	<u>\$1,641,045</u>

The overall financial position of the operations of the Benton Harbor Housing Commission, have improved due to a number of reductions.

1. A reduction in maintenance cost for minor maintenance activities specifically discontinued:
 - A. The use of contractors.
 - B. Monitoring the use of materials and supplies.
 - C. Charges tenants for repairs or replacements that were not normal wear and tear.

2. A reduction in staff, specifically:

- A. Due to future plans for Asset Management the Maintenance Foreman's position has not been filled.
- B. The financial analysis position was not filled when vacated. The Director and Deputy Director have assumed the financial management responsibilities.
- C. Discontinued the use of outside contractors for the renovation of vacant and developed an in-house vacant unit task force.

3. Establish appropriate financial management policies and procedures:

- A. A tighter control over spending has been developed.
- B. A system has been developed to monitor all payments and balance all check accounts.

HOUSING MANAGEMENT:

- * Assertive efforts are being made to reduce the tenant accounts receivable.
- * Reduction of vacant units and reducing the vacant unit turn around time by implementing improved procedures and practices.

The Housing Commission plans on continuing our renovation projects in fiscal year 2006. We have plans to improve the lighting at the Harbor Towers Development. Additionally we will install new floors in the hallways, improve the security systems, and purchase furniture for the lounge areas. Doors and windows will be installed at the Buss Development along with new siding. The 2006 Capital Funds will be used for the aforementioned improvements.

During the past year we demolished 94 units at the Whitfield I Development in preparation for the construction of 24 family homes and 26 one bedroom apartment units.

COMMUNITY CENTER

In addition, a part of the plan for the HOPE VI Project included the renovation of the Benton Harbor Housing Commission Community Center. The Community Center is currently going through a complete overhaul which includes the addition of a gym, several new and remodeled office suites, a new maintenance building, a community center with a stage, a computer learning center and a complete new look to the outside of the building. This newly renovated facility will serve as a combination Neighborhood Networks facility and Teen Center. One of the biggest community needs is this part of Benton Harbor is for an aggressive Teen Center. Coupling this facility with the hub of the Neighborhood Network will get BHHC the maximum value for the dollars it expends. The staff of the Benton Harbor

Housing Commission and HOPE VI Project staff will return to occupy the building in Spring/Summer of 2007.

NEW HOME CONSTRUCTION

Construction of 70 three and four bedroom homes (30/3br, 34/4br and 6 stick built homes) began in the latter part of August 2006. Closing ceremony on these homes took place in Lansing, MI in June, 2006. The homes are situated predominately in the Southwest section of Benton Harbor. As of the date of this report, a total of 20 homes have been completed at a cost of \$2,358,828. Occupancy is expected to begin around the first and/or second week of December. Applicants are being processed through Keystone Management Company with emphasis being placed on Whitfield I residents. Whitfield I residents have preferential treatment because they are the residents who were displaced from Whitfield I apartments. Every effort has been made and CSS case managers continue to meet and/or make contact with residents to assist them with meeting eligibility requirements.

We anticipate current funding levels for operations and capital improvements will remain consistent with past years; therefore, the Commission expects to continue to provide safe, sanitary and decent housing for the low and moderately low income elderly families.

Other than what has been described above, there are no currently known facts, decisions, or conditions that are expected to have a significant effect on financial position (net assets) or results of operations (revenues, expenses, and other changes).

Questions and comments regarding this Management Discussion and Analysis may be directed to:

Barbara Hollowell, Executive Director
721 Nate Wells Drive
Benton Harbor, MI 49022

FINANCIAL STATEMENTS

BENTON HARBOR HOUSING COMMISSION
STATEMENT OF NET ASSETS
September 30, 2005
=====

ASSETS

Current Assets:	
Cash	\$ 292,962
Accounts receivable-other	813
Accounts receivable-HUD	244,294
Accounts receivable-tenants	65,042
Allowance for doubtful accounts	(54,958)
Fraud recovery	11,964
Allowance for doubtful accounts-fraud	(11,964)
Prepaid expenses	<u>73,158</u>
Total Current Assets	<u>621,311</u>
Capital Assets:	
Land	121,807
Buildings	9,000,421
Equipment	489,899
Building improvements	7,664,083
Construction in progress	<u>445,228</u>
	17,721,438
Less: accumulated depreciation	<u>(8,870,314)</u>
Net Capital Assets	<u>8,851,124</u>
Total Assets	<u>\$ 9,472,435</u>

See notes to financial statements

BENTON HARBOR HOUSING COMMISSION
STATEMENT OF NET ASSETS (CONTINUED)
September 30, 2005
=====

LIABILITIES and NET ASSETS

Current Liabilities:	
Accounts payable	\$ 181,089
Accounts payable-HUD	2,931
Tenant security deposit liability	47,907
Accrued expenses	38,572
Deferred revenues	7,589
Other current liabilities	<u>25,893</u>
Total Current Liabilities	<u>303,981</u>
Noncurrent Liabilities:	
Noncurrent liabilities-other	10,902
Accrued compensated absences	<u>35,159</u>
Total Noncurrent Liabilities	<u>46,061</u>
Total Liabilities	<u>350,042</u>
Net Assets:	
Invested in capital assets	8,851,124
Unrestricted net assets	<u>271,269</u>
Total Net Assets	<u>9,122,393</u>
Total Liabilities and Net Assets	<u>\$ 9,472,435</u>

See notes to financial statements

BENTON HARBOR HOUSING COMMISSION

STATEMENT OF ACTIVITIES

Year Ended September 30, 2005

=====

OPERATING REVENUES:

Dwelling rent	\$ 541,371
Non-dwelling rent	<u>48,520</u>

Total operating revenues	<u>589,891</u>
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OPERATING EXPENSES:

Administration	734,705
Tenant services	20,080
Utilities	335,468
Ordinary maintenance and operation	543,725
Protective services	51,143
General expenses	178,923
Casualty losses	450
Housing assistance payments	465,852
Depreciation	<u>667,444</u>

Total operating expenses	<u>2,997,790</u>
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Operating income(loss)	<u>(2,407,899)</u>
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NONOPERATING REVENUES:

Investment interest income	5,381
Other income	6,541
Fraud recovery	1,221
Capital grants	1,326,437
Operating grants	<u>1,975,071</u>

Total nonoperating revenues	<u>3,314,651</u>
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Change in net assets	906,752
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Prior period adjustments, equity transfers and correction of errors	. 1,045
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Net assets, beginning	<u>8,214,596</u>
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Net assets, ending	<u>\$ 9,122,393</u>
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See notes to financial statements

BENTON HARBOR HOUSING COMMISSION

STATEMENT OF CASH FLOWS

Year Ended September 30, 2005

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CASH FLOWS FROM OPERATING ACTIVITIES:

Cash received from dwelling and nondwelling rents	\$ 542,048
Cash payments to other suppliers of goods and services	(1,533,747)
Cash payments to employees for services	(818,612)
Cash payments for in lieu of taxes	<u>39,973</u>
Net cash (used) by operating activities	<u>(1,770,338)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:

Tenant security deposits	(11,759)
Operating grants	1,913,701
Fraud recovery	1,221
Other revenue	<u>13,707</u>
Net cash provided by noncapital financing activities	<u>1,916,870</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:

Capital grants	1,307,446
Payments for capital acquisitions	<u>(1,313,996)</u>
Net cash (used) by capital and related financing activities	<u>(6,550)</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Investments decreased	118,435
Receipts of interest and dividends	<u>5,381</u>
Net cash provided by investing activities	<u>123,816</u>

Net increase(decrease) in cash	263,798
Cash, beginning	<u>29,164</u>
Cash, ending	<u>\$ 292,962</u>

BENTON HARBOR HOUSING COMMISSION
STATEMENT OF CASH FLOWS (CONTINUED)
Year Ended September 30, 2005
=====

RECONCILIATION OF CASH AND CASH EQUIVALENTS
PER STATEMENT OF CASH FLOWS TO THE BALANCE
SHEET:

Cash	\$ 292,962
Restricted cash	<u> </u>
Cash and cash equivalents per balance sheet	<u>\$ 292,962</u>

SCHEDULE RECONCILING OPERATING INCOME
TO NET CASH FLOW FROM OPERATING
ACTIVITIES:

Operating income(loss)	\$(2,407,899)
Adjustments to reconcile operating (loss) to net cash(used in) operating activities:	
Depreciation	667,444
Bad debt allowance adjustment	37,635
Adjustments	11,000
Changes in assets and liabilities:	
(Increase) decrease in assets:	
Accounts receivable-tenants	(41,338)
Prepaid expenses	(13,208)
Increase (decrease) in liabilities:	
Accounts payable	(48,924)
Accrued wage/payroll taxes payable	(2,589)
Accrued compensated absences	(3,544)
Accounts payable-PILOT	58,559
Other current liabilities	(20,969)
Deferred revenues	<u>(6,505)</u>
Net cash (used) by operating activities	<u>\$(1,770,338)</u>

See notes to financial statements

BENTON HARBOR HOUSING COMMISSION
NOTES TO FINANCIAL STATEMENTS
September 30, 2005
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NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Benton Harbor Housing Commission (the Housing Commission) have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Housing Commission's accounting policies are described below.

The Reporting Entity

The Benton Harbor Housing Commission is a component unit of the City of Benton Harbor, a Michigan home rule city. The Housing Commission is a Public Housing Agency created by the City of Benton Harbor on January 16, 1950, consisting of a five member board appointed by the City Manager and charged with the responsibility to provide and service housing to meet the community's needs for affordable low-income housing. These financial statements include all of the resources and activities of the Benton Harbor Housing Commission over which the Housing Commission exercises operational control or which have financial significance to the Housing Commission. The Housing Commission has no component units and is not responsible for any jointly governed organizations.

Grants and Other Intergovernmental Revenues

The Housing Commission has entered into contracts with the U.S. Department of Housing and Urban Development (HUD). Under Contract C-3028, the Housing Commission constructed, maintains and operates 270 units of subsidized housing in the City of Benton Harbor, Michigan. The Housing Commission manages a Housing Choice Voucher program of subsidies for 128 qualifying low-income residents for rental housing. The Housing Commission receives an annual operating subsidy determined under a performance formula for units owned by the Housing Commission. The Housing Commission receives a HAP allocation in addition to administrative fees based on the number of households it assists under its Housing Choice Voucher program. The Housing Commission also, since April 30, 2004, began administering a HOPE VI program (Revitalization of Severely Distressed Public Housing program).

Fund Financial Statements

The Housing Commission only has *business-type activities*, which rely to a significant extent on fees and charges for support. The fund financial statements include the Statement of Net Assets,

Statement of Activities and the Statement of Cash Flows.

The Housing Commission is considered one single Enterprise Fund and does not have any governmental activities.

Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus. The Housing Commission's financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting.

Under the economic resources measurement focus, all assets and all liabilities (whether current or noncurrent) are included in the net assets of the individual funds. Their reported net assets are segregated into invested capital assets and unrestricted net asset components. Operating statements present increases(revenues) and decreases(expenses) in net assets.

Under the accrual basis of accounting, all revenues are recorded when earned, regardless of when received, and all expenses are recorded when a liability is created, regardless of when paid.

In accordance with Governmental Accounting Standards Board Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, Benton Harbor Housing Commission has elected to apply only those Financial Accounting Standards Board Statements issued prior to November 30, 1989 to its proprietary funds.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Housing Commission considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

Insurance

The premiums on all major insurance policies are charged to prepaid insurance and amortized over the life of the policy.

Budgets and Budgetary Accounting

The Housing Commission is required under each of its HUD contracts to adopt an annual operating budget which must be approved by HUD. Budgetary data and comparison of actual and planned performance is reported directly to HUD based on specific program reporting requirements.

Receivables

All receivables are reported at their net value, reflecting where appropriate, by the estimated portion that is expected to be uncollectible. The Housing Commission estimates the uncollectible portion of tenant rents as a percentage of gross tenant rents using prior collection experience.

Short-term Interfund Receivables/Payables

During the course of operations, numerous transactions occur between individual funds. Receivables and payables arising from these transactions are classified as "due from other funds" and "due to other funds" on the statement of net assets.

Fixed Asset Capitalization

Fixed assets with a cost to acquire or construct of \$300 or more are capitalized and depreciated over their estimated useful lives. Depreciation is provided on a straight-line basis using the following estimate of useful lives:

Buildings	40 years
Equipment and furnishings	3 - 10 years
Building improvements	10 years

Net Assets

The Housing Commission classifies its net assets as follows:

- a. Invested in capital assets net of related debt represents all fixed assets acquired by the Housing Commission (both pre-FY 2001 and post-FY 2001) reduced by accumulated depreciation and related capital projects debt issued to purchase those assets.
- b. Unrestricted net assets indicate that portion of net assets which is available for use in future periods.

Operating Revenues and Expenses

The Housing Commission includes in operating revenues resources that are derived or received from exchange transactions. Resources derived principally from non-exchange transactions are excluded from operating income. Operating expenses include the cost of providing services. Amounts expended for capital additions and amounts expended for retirement-of-debt are excluded from operating expenses. Depreciation expense is charged to invested capital assets rather than unrestricted net assets.

Use of Estimates

The preparation of financial statements in accordance with

generally accepted accounting principles requires the use of management estimates. The Housing Commission uses estimates of useful lives of its fixed assets and other estimates in preparing its financial statements. Actual results may differ from the Housing Commission's estimates.

Vacation and Sick Leave

The Housing Commission allows all probationary and regular full-time employees to accumulate the following compensated absences:

- * Vacation leave: Vacation leave may be accumulated to a maximum of 24 days. At the end of each benefit year, effective with the Fair Labor Standards cycle ending on or before January 15, any Housing Commission employee with accrued annual vacation leave in excess of twenty-four (24) days will have this leave forfeited. Upon separation from Benton Harbor Housing Commission service, an employee will receive payment for all accumulated vacation leave up to a maximum of 24 days.
- * Sick leave: Every permanent full-time employee in the Housing Commission's service shall be entitled to sick leave with pay of one workday for each completed month of service. Sick leave shall be cumulative without limitation.
- * Personal days: Temporary leaves of absence without pay may be granted by the Executive Director to regular employees for personal or family emergencies, for personal or family disability, for continuation of education, or for special work or experiences that will allow the Housing Commission to benefit from the experience gained or the work performed.

The amount of accumulated benefits at September 30, 2005, was \$54,874, and is recorded as a liability in the applicable funds.

Post Employment Benefits

The provision for pension cost is recorded on an accrual basis, and the Commission's policy is to fund pension costs as they accrue.

Income Taxes

As a component unit of a Michigan home rule city, the Housing Commission is exempt from federal and state income taxes. The Housing Commission has no unrelated business income.

NOTE 2: DEPOSITS, INVESTMENTS AND CREDIT RISK

The Housing Commission maintains cash and savings accounts in the Low Rent, Housing Choice Voucher, and the HOPE VI programs. Landlord checks are processed through the Housing Choice Voucher

account. All other receipts and disbursements are processed through the Low Rent and HOPE VI accounts.

Deposits

At year-end, the carrying amount of the Housing Commission's deposits were \$292,912 and the bank balance was \$349,673 of which \$349,673 was covered either by federal depository insurance or a collateral agreement. The Housing Commission also has \$25 in petty cash and \$25 in a change fund.

Investments

The Housing Commission did not have any investments as September 30, 2005:

Interest Rate Risk - The Housing Commission does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk - The Housing Commission's investment policy approves the following securities and deposit accounts: U.S. Treasury bills, U.S. Treasury certificates, notes and bonds, certificate of deposits, commercial business savings accounts, money market accounts, obligations which are lawful investments for fiduciary and trust funds under the jurisdiction of the United States Government, Series E savings bonds and Series H savings bonds.

The Housing Commission shall deposit excess monies in the general fund and all other operating fund accounts in time, savings, or share accounts with banks or other institutions, to the extent that all unsecured deposits or accounts are insured by: the Federal Deposit Insurance Corporation (FDIC), National Credit Union Share Insurance Fund (NCUSIF), or State Insurance plans which are approved by the United States Comptroller of the currency as an eligible depository of trust funds of National Banks, respectively.

All excess monies over the insured limits of the financial institution or banks, the Housing Commission shall obtain collateralization of excess funds at 100% of the principal value. Such collateralization shall be in the form of U.S. Treasury Notes or Bonds in the name of the Housing Commission held in trust by the financial institution or bank. The Housing Commission may choose collateralization in the following form and percentages:

- | | | |
|-------------------------------------|---|----------|
| 1. U.S. Treasury Notes | - | 100%; or |
| 2. U.S. Treasury Notes and/or Bonds | - | 75% and |
| 3. Mortgage Backed Securities | - | 25% |

In any such case the collateralization shall be no less than 100% of value of the funds in all accounts. The financial institution shall provide a statement of the collateralization at a minimum

once every quarter to the Housing Commission.

The Housing Commission has no investment policy that would further limit its investment choices.

Concentration of Credit Risk - The Housing Commission places no limit on the amount the Housing Commission may invest in any one issuer. All of the Housing Commission's investments are reported in the Enterprise Fund.

A reconciliation of cash as shown on the statement of net assets is as follows:

Cash on hand	\$ 50
Carrying amount of deposits	292,912
Investments	<u>-0-</u>
Total	<u>\$ 292,962</u>
Cash and cash equivalents:	
Enterprise activities	\$ 349,723
Enterprise activities - checks written in excess of deposits	<u>(56,761)</u>
Total	<u>\$ 292,962</u>

NOTE 3: RECEIVABLES AND PAYABLES

Tenant Accounts Receivable

Tenant accounts receivable are recorded at gross amount and reduced by the estimated amount uncollectible. At September 30, 2005, the receivables were \$65,042 with \$54,958 estimated as uncollectible. Bad debt expense was \$37,662.

Accounts Receivable/Payables - HUD

Amounts due from HUD represents funding due the Housing Commission for actual expenses for the programs financed. Balances at September 30, 2005 were as follows:

Low Rent Program	\$ 78,445
Capital Fund Program	142,367
HOPE VI Program	<u>23,482</u>
	<u>\$ 244,294</u>

Amounts due to HUD represents overfunding of actual expenses for the programs financed. Balances at September 30, 2005 were as follows:

Housing Choice Voucher Program	<u>\$ 2,931</u>
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Inter-fund Receivables, Payables, and Transfers

Interfund receivables and payables are recorded as "due from other programs" and "due to other programs".

The amounts of interfund receivables and payables are as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
Low Rent Program	\$171,430	Low Rent Program	\$ 14,967
Housing Choice		Capital Fund Program	142,367
Voucher Program	169,185	Housing Choice Voucher	
		Program	158,718
		HOPE VI	24,563
	<u>\$340,615</u>		<u>\$340,615</u>

The capital fund program transferred \$129,870 to the low rent program during the fiscal year ended September 30, 2005.

NOTE 4: CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2005 was as follows:

	<u>Balance 09/30/04</u>	<u>Additions/Retirements/ Transfers</u>	<u>Balance 09/30/05</u>
Low Rent Program			
Land	\$ 121,807	\$	\$ 121,807
Buildings	9,000,421		9,000,421
Furniture, equip. & machinery - dwellings	60,767		60,767
Furniture, equip. & machinery - administration	377,842	38,947	416,789
Building improvements	<u>6,370,730</u>	<u>211,165</u>	<u>6,581,895</u>
	15,931,567	<u>\$ 250,112</u>	16,181,679
Less accumulated depreciation	<u>(8,163,539)</u>	<u>\$ (667,039)</u>	<u>(8,830,578)</u>
Total	<u>\$7,768,028</u>		<u>\$7,351,101</u>
Revitalization of Severely Distressed Public Housing Program (HOPE VI) Construction in progress	<u>\$</u>	<u>\$ 419,168</u>	<u>\$ 419,168</u>

	<u>Balance</u> <u>09/30/04</u>	<u>Additions/Retirements/</u> <u>Transfers</u>	<u>Transfers</u>	<u>Balance</u> <u>09/30/05</u>
Capital Fund Program				
Furniture, equip. & machinery - dwellings	\$	\$ 9,480	\$	\$ 9,480
Furniture, equip. & machinery - administration	17,030	2,863	17,030	2,863
Building improvements	418,574	852,202	188,588	1,082,188
Construction in progress	<u>5,913</u>	<u>20,147</u>		<u>26,060</u>
	441,517	<u>\$ 884,692</u>	<u>\$ 205,618</u>	1,120,591
Less accumulated depreciation	(<u>32,459</u>)	(<u>29,854</u>)	<u>\$ 22,577</u>	(<u>39,736</u>)
Total	<u>\$ 409,058</u>			<u>\$1,080,855</u>
Combined Totals				<u><u>\$8,851,124</u></u>

NOTE 5: OTHER CURRENT LIABILITIES

Other current liabilities consist of utilities payable of \$25,893.

NOTE 6: INVESTED IN CAPITAL ASSETS

Changes in invested in capital assets in the enterprise fund type for the year ended September 30, 2005, consist of the following:

	<u>Invested in</u> <u>Capital Assets</u>
Balance, beginning	\$ 8,190,829
Investment in fixed assets, net of depreciation paid for from operations net of depreciation.	<u>660,295</u>
Balance, ending	<u><u>\$ 8,851,124</u></u>

These reclassifications are investments in fixed assets, net of depreciation paid for from operations.

NOTE 7: OTHER INFORMATION

A. Pension Plan

The Benton Harbor Housing Commission has a Defined Contribution Pension Plan (Plan) for governmental employees. The Plan allows for early retirement (age 55), normal retirement (age 65), employer contributions (10% of compensation), mandatory after-tax employee contributions (5% of compensation), and voluntary after tax employee contributions (1-10% of compensation). In addition to the above, no age requirements exist for eligibility, and 100% vesting is immediate. Plan assets and funding statistics are available under separate cover provided to the Commission by the Insurer.

B. Current Vulnerability Due to Certain Concentrations

The Housing Commission operates in a heavily regulated environment. The operations of the Housing Commission are subject to the administrative directives, rules and regulations of federal, state and local regulatory agencies, including, but not limited to, HUD. Such administrative directives, rules and regulations are subject to change by an act of Congress or an administrative change mandated by HUD. Such changes may occur with little notice to inadequate funding to pay for the related cost, including the additional administrative burden to comply with a change.

C. Risk Management and Litigation

The Housing Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees, and natural disasters for which it obtains coverage from commercial companies. The Housing Commission has had no settled claims resulting from these risks that exceed their commercial coverage in the current year or the three prior fiscal years.

D. Prior Period Adjustments, Equity Transfers and Correction of Errors

Low Rent Program

Prior period audit re: Utilities	\$ 11,000
Write off old HUD A/R for 1998 PHDEP	(18,234)
Equity transfer: 2000 CFP equity into Low Rent	205,618
Equity transfer: 2001 DEP equity into Low Rent	<u>13,743</u>
	<u>\$ 212,127</u>

Public Housing Capital Fund Program

Equity Transfer: 2000 CFP equity to Low Rent	<u>\$(205,618)</u>
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Housing Choice Vouchers Program

HUD changes to 9/04 52681	<u>\$(5,464)</u>
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E. Reclassifications

Certain prior years' balances have been reclassified to conform to the current year's presentation.

F. Combining Financial Data Schedules

The totals in the combining Balance Sheet and Combining Income Statement represent unconsolidated totals. Under principals of consolidation, inter fund transactions would be eliminated; the totals in the combined statements follow the financial data schedule format recommended by the U.S. Department of Housing and Urban Development's Real Estate Assessment Center (REAC).

NOTE 8: SEGMENT INFORMATION

The Housing Commission maintains one Enterprise Fund that includes three separate programs which provide housing assistance and grant programs. Segment information for the year ended September 30, 2005, was as follows:

	<u>Low Rent Program</u>	<u>Capital Fund Program</u>	<u>Housing Choice Vouchers Program</u>	<u>HOPE VI Program</u>
Condensed Statement of				
Net Assets				
Current assets	\$ 411,011	\$ 142,367	\$383,985	\$ 24,563
Capital assets	<u>7,351,101</u>	<u>1,080,855</u>		<u>419,168</u>
Total assets	<u>\$7,762,112</u>	<u>\$1,223,222</u>	<u>\$383,985</u>	<u>\$ 443,731</u>
Current liabilities	\$ 314,467	\$ 142,367	\$163,199	\$ 24,563
Noncurrent liabilities	<u>46,061</u>			
Total liabilities	<u>360,528</u>	<u>142,367</u>	<u>163,199</u>	<u>24,563</u>
Net assets:				
Invested in capital assets	7,351,101	1,080,855		419,168
Unrestricted net assets	<u>50,483</u>		<u>220,786</u>	
Total net assets	<u>7,401,584</u>	<u>1,080,855</u>	<u>220,786</u>	<u>419,168</u>
Total liabilities & net assets	<u>\$7,762,112</u>	<u>\$1,223,222</u>	<u>\$383,985</u>	<u>\$ 443,731</u>

	<u>Low Rent Program</u>	<u>Capital Fund Program</u>	<u>Housing Choice Vouchers Program</u>	<u>HOPE VI Program</u>
Condensed Statement of Activities				
Dwelling and nondwelling rents	\$ 589,891	\$	\$	\$
Depreciation	(637,590)	(29,854)		
Other operating expenses	<u>(1,641,418)</u>	<u>(156,418)</u>	<u>(532,510)</u>	
Operating(loss)	(1,689,117)	(186,272)	(532,510)	
Nonoperating revenues:				
Investment earnings	3,905		1,476	
Other income	3,397		3,144	
Fraud recovery			1,221	
Capital grants		907,269		419,168
Operating grants	941,318	286,288	747,465	
Operating transfers	<u>129,870</u>	<u>(129,870)</u>		
Change in net assets	(610,627)	877,415	220,796	419,168
Prior period adjustments & equity transfers	212,127	(205,618)	(5,464)	
Beginning net assets	<u>7,800,084</u>	<u>409,058</u>	<u>5,454</u>	
Ending net assets	<u>\$7,401,584</u>	<u>\$1,080,855</u>	<u>\$220,786</u>	<u>\$ 419,168</u>

**Condensed Statement
of Cash Flows**

Net cash provided (used) by:				
Operating activities	\$(1,082,875)	\$(156,418)	\$(531,045)	\$
Noncapital financing activities	1,025,035	156,418	729,088	6,329
Capital and related financing activities	(1,302)			(5,248)
Investing activities	<u>122,340</u>		<u>1,476</u>	
Net increase(decrease)	63,198		199,519	1,081
Beginning cash and cash equivalents	<u>14,262</u>		<u>14,902</u>	
Ending cash and cash equivalents	<u>\$ 77,460</u>	<u>\$</u>	<u>\$ 214,421</u>	<u>\$ 1,081</u>

SUPPLEMENTARY INFORMATION

BENTON HARBOR HOUSING COMMISSION
COMBINING STATEMENT OF NET ASSETS
September 30, 2005
=====

	Low Rent	Capital
	Program	Fund
	14.850	Program
		14.872

ASSETS

Current assets:

Cash	\$	77,460	\$	
Accounts receivable-PHA projects				
Accounts receivable-HUD		78,445		142,367
Accounts receivable-miscellaneous		434		
Accounts receivable-tenants		65,042		
Allowance for doubtful accounts	(54,958)		
Fraud recovery		11,964		
Allowance for doubtful accounts-fraud	(11,964)		
Prepaid expenses		73,158		
Due from other programs		<u>171,430</u>		
Total current assets		<u>411,011</u>		<u>142,367</u>

Capital Assets:

Land		121,807		
Buildings		9,000,421		
Equipment		477,556		12,343
Building improvements		6,581,895		1,082,188
Construction in progress		<u>26,060</u>		
		16,181,679		1,120,591
Less accumulated depreciation	(<u>8,830,578)</u>	(<u>39,736)</u>
Net capital assets		<u>7,351,101</u>		<u>1,080,855</u>
Total Assets	\$	<u>7,762,112</u>	\$	<u>1,223,222</u>

Housing Choice Vouchers <u>14.871</u>	(HOPE VI) Revitalization of Severely Distressed Public Housing <u>14.866</u>	<u>Totals</u>
\$ 214,421 379	\$ 1,081 23,482	\$ 292,962 379 244,294 434 65,042 (54,958) 11,964
<u>169,185</u>	<u> </u>	(11,964) 73,158 <u>340,615</u>
<u>383,985</u>	<u>24,563</u>	<u>961,926</u>
		121,807 9,000,421 489,899 7,664,083 <u>445,228</u>
	<u>419,168</u>	<u>419,168</u> 17,721,438 (8,870,314)
	<u>419,168</u>	<u>8,851,124</u>
<u>\$ 383,985</u>	<u>\$ 443,731</u>	<u>\$ 9,813,050</u>

BENTON HARBOR HOUSING COMMISSION
COMBINING STATEMENT OF NET ASSETS (CONTINUED)
September 30, 2005
=====

	Low Rent Program <u>14,850</u>	Capital Fund Program <u>14,872</u>
LIABILITIES and NET ASSETS		
Current liabilities:		
Accounts payable	\$ 179,539	\$
Accounts payable-HUD		
Tenant security deposit liability	47,907	
Accrued expenses	38,572	
Deferred revenues	7,589	
Other current liabilities	25,893	
Due to other programs	<u>14,967</u>	<u>142,367</u>
Total current liabilities	<u>314,467</u>	<u>142,367</u>
Noncurrent liabilities:		
Noncurrent liabilities-other	10,902	
Accrued compensated absences	<u>35,159</u>	
Total noncurrent liabilities	<u>46,061</u>	
Total liabilities	<u>360,528</u>	<u>142,367</u>
Net Assets:		
Invested in capital assets	7,351,101	1,080,855
Unrestricted net assets	<u>50,483</u>	
Total net assets	<u>7,401,584</u>	<u>1,080,855</u>
Total Liabilities and Net Assets	<u>\$7,762,112</u>	<u>\$ 1,223,222</u>

Housing Choice Vouchers <u>14.871</u>	(HOPE VI) Revitalization of Severely Distressed Public Housing <u>14.866</u>	<u>Totals</u>
\$ 1,550	\$	\$ 181,089
2,931		2,931
		47,907
		38,572
		7,589
		25,893
<u>158,718</u>	<u>24,563</u>	<u>340,615</u>
<u>163,199</u>	<u>24,563</u>	<u>644,596</u>
		10,902
		<u>35,159</u>
		46,061
<u>163,199</u>	<u>24,563</u>	<u>690,657</u>
	419,168	8,851,124
<u>220,786</u>		<u>271,269</u>
<u>220,786</u>	<u>419,168</u>	<u>9,122,393</u>
<u>\$ 383,985</u>	<u>\$ 443,731</u>	<u>\$ 9,813,050</u>

BENTON HARBOR HOUSING COMMISSION
COMBINING STATEMENT OF ACTIVITIES
 Year Ended September 30, 2005
 =====

	Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
OPERATING REVENUES:		
Dwelling rent	\$ 541,371	\$
Nondwelling rent	<u>48,520</u>	
Total operating revenues	<u>589,891</u>	
OPERATING EXPENSES:		
Administration	591,677	76,370
Tenant services	2,160	17,920
Utilities	335,468	
Ordinary maintenance and operation	532,740	10,985
Protective services		51,143
General expenses	178,923	
Casualty losses	450	
Housing assistance payments		
Depreciation	<u>637,590</u>	<u>29,854</u>
Total operating expenses	<u>2,279,008</u>	<u>186,272</u>
Operating income(loss)	<u>(1,689,117)</u>	<u>(186,272)</u>
NONOPERATING REVENUES:		
Operating transfers in (out)	129,870	(129,870)
Investment interest income	3,905	
Other income	3,397	
Fraud recovery		
Capital grants		907,269
Operating grants	<u>941,318</u>	<u>286,288</u>
Total nonoperating revenues	<u>1,078,490</u>	<u>1,063,687</u>
Change in net assets	(610,627)	877,415
Prior period adjustments, equity transfers and correction of errors	212,127	(205,618)
Net assets, beginning	<u>7,800,084</u>	<u>409,058</u>
Net assets, ending	<u>\$7,401,584</u>	<u>\$1,080,855</u>

Housing Choice Vouchers <u>14.871</u>	(HOPE VI) Revitalization of Severely Distressed Public Housing <u>14.866</u>	<u>Totals</u>
\$	\$	\$ 541,371
		<u>48,520</u>
		<u>589,891</u>
66,658		734,705
		20,080
		335,468
		543,725
		51,143
		178,923
		450
465,852		465,852
		<u>667,444</u>
<u>532,510</u>		<u>2,997,790</u>
<u>(532,510)</u>		<u>(2,407,899)</u>
1,476		5,381
3,144		6,541
1,221		1,221
	419,168	1,326,437
<u>747,465</u>		<u>1,975,071</u>
<u>753,306</u>	<u>419,168</u>	<u>3,314,651</u>
220,796	419,168	906,752
(5,464)		1,045
<u>5,454</u>		<u>8,214,596</u>
<u>\$ 220,786</u>	<u>\$ 419,168</u>	<u>\$ 9,122,393</u>

BENTON HARBOR HOUSING COMMISSION
COMBINING STATEMENT OF CASH FLOWS
Year Ended September 30, 2005
=====

	Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from dwelling and nondwelling rents	\$ 542,048	\$
Cash payments to other suppliers of goods and services	(987,677)	(74,218)
Cash payments to employees for services	(677,219)	(82,200)
Cash payments for in lieu of taxes	<u>39,973</u>	
Net cash (used) by operating activities	<u>(1,082,875)</u>	<u>(156,418)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Tenant security deposits	(11,759)	
Due from/to other funds	51,722	(21,431)
Operating transfers in (out)	129,870	(129,870)
Operating grants	844,639	307,719
Fraud recovery		
Other revenue	<u>10,563</u>	
Net cash provided by noncapital financing activities	<u>1,025,035</u>	<u>156,418</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Capital grants		907,269
Payments for capital acquisitions	<u>(1,302)</u>	<u>(907,269)</u>
Net cash (used) by capital and related financing activities	<u>(1,302)</u>	
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investments decreased	118,435	
Receipts of interest and dividends	<u>3,905</u>	
Net cash provided by investing activities	<u>122,340</u>	
Net increase(decrease) in cash	63,198	
Cash, beginning	<u>14,262</u>	
Cash, ending	<u>\$ 77,460</u>	<u>\$</u>

Housing Choice Vouchers <u>14.871</u>	(HOPE VI) Revitalization of Severely Distressed Public Housing <u>14.866</u>	<u>Totals</u>
\$	\$	\$ 542,048
(471,852)		(1,533,747)
(59,193)		(818,612)
		<u>39,973</u>
<u>(531,045)</u>		<u>(1,770,338)</u>
(36,620)	6,329	(11,759)
761,343		1,913,701
1,221		1,221
<u>3,144</u>		<u>13,707</u>
<u>729,088</u>	<u>6,329</u>	<u>1,916,870</u>
	400,177	1,307,446
	<u>(405,425)</u>	<u>(1,313,996)</u>
	(5,248)	(6,550)
<u>1,476</u>		<u>118,435</u>
		<u>5,381</u>
<u>1,476</u>		<u>123,816</u>
199,519	1,081	263,798
<u>14,902</u>		<u>29,164</u>
<u>\$ 214,421</u>	<u>\$ 1,081</u>	<u>\$ 292,962</u>

BENTON HARBOR HOUSING COMMISSION
COMBINING STATEMENT OF CASH FLOWS (CONTINUED)
Year Ended September 30, 2005
=====

	Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS PER STATEMENT OF CASH FLOWS TO THE BALANCE SHEET:		
Cash	\$ 77,460	\$
Restricted cash	<u> </u>	<u> </u>
Cash and cash equivalents per balance sheet	<u>\$ 77,460</u>	<u>\$</u>
SCHEDULE RECONCILING OPERATING INCOME TO NET CASH FLOW FROM OPERATING ACTIVITIES:		
Operating income(loss)	\$(1,689,117)	\$(186,272)
Adjustments to reconcile operating (loss) to net cash(used in) operating activities:		
Depreciation	637,590	29,854
Bad debt allowance adjustment	37,635	
Adjustments	11,000	
Changes in assets and liabilities:		
(Increase) decrease in assets:		
Accounts receivable-tenants	(41,338)	
Prepaid expenses	(13,208)	
Increase (decrease) in liabilities:		
Accounts payable	(50,389)	
Accrued wage/payroll taxes payable	(2,589)	
Accrued compensated absences	(3,544)	
Accounts payable-PILOT	58,559	
Other current liabilities	(20,969)	
Deferred revenues	<u>(6,505)</u>	
Net cash (used) by operating activities	<u>\$(1,082,875)</u>	<u>\$(156,418)</u>

Housing Choice Vouchers <u>14.871</u>	(HOPE VI) Revitalization of Severely Distressed Public Housing <u>14.866</u>	<u>Totals</u>
\$ 214,421	\$ 1,081	\$ 292,962
<u>\$ 214,421</u>	<u>\$ 1,081</u>	<u>\$ 292,962</u>
\$ (532,510)	\$	\$ (2,407,899)
		667,444
		37,635
		11,000
		(41,338)
		(13,208)
1,465		(48,924)
		(2,589)
		(3,544)
		58,559
		(20,969)
		(6,505)
<u>\$ (531,045)</u>	<u>\$</u>	<u>\$ (1,770,338)</u>

BENTON HARBOR HOUSING COMMISSION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
AND NOTES TO THE SCHEDULE OF FEDERAL AWARDS
Year Ended September 30, 2005
=====

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Fiscal Year	Federal Grantor	CFDA No.	Expenditures
	<u>U.S. Department of HUD</u>		
	<u>Public and Indian Housing Major - Direct Program</u>		
2005	Low Rent Public Housing	14.850	\$ 941,318
	<u>Public and Indian Housing Major - Direct Program</u>		
2005	Capital Fund Program	14.872	1,193,557
	<u>Low Income Public Housing Major - Direct Program</u>		
2005	Housing Choice Vouchers	14.871	747,465
	<u>Low Income Public Housing Major - Direct Program</u>		
2005	Revitalization of Severely Distressed Public Housing (HOPE VI)	14.866	<u>419,168</u>
	Total		<u>\$3,301,508</u>

NOTES TO THE SCHEDULE OF FEDERAL AWARDS

NOTE 1: Significant Accounting Policies

The schedule of federal awards has been prepared on the accrual basis of accounting.

CFDA = Catalog of Federal Domestic Assistance

BENTON HARBOR HOUSING COMMISSION

FINANCIAL DATA SCHEDULE

Year Ended September 30, 2005

=====

FDS Line Item No.		Low Rent Program 14.850	Capital Fund Program 14.872
	ASSETS		
	Current Assets:		
	Cash:		
111	Cash-unrestricted	\$ 29,553	\$
114	Cash-tenant security deposits	47,907	
100	Total cash	77,460	
	Receivables:		
121	A/R-PHA projects		
122	A/R-HUD other projects	78,445	142,367
125	A/R-miscellaneous	434	
126	A/R-tenants-dwelling rents	65,042	
126.1	Allowance for doubtful accounts - dwelling rents	(54,958)	
128	Fraud recovery	11,964	
128.1	Allowance for doubtful accounts - fraud	(11,964)	
120	Total receivables, net of allowance for doubtful accounts	88,963	142,367
	Other Current Assets:		
142	Prepaid expenses and other assets	73,158	
144	Interprogram due from	171,430	
	Total other current assets	244,588	
150	Total current assets	411,011	142,367
	Noncurrent Assets:		
	Fixed Assets:		
161	Land	121,807	
162	Buildings	9,000,421	
163	Furn, equip & mach-dwellings	60,767	9,480
164	Furn, equip & mach-admin.	416,789	2,863
165	Building improvements	6,581,895	1,082,188
166	Accumulated depreciation	(8,830,578)	(39,736)
167	Construction in progress		26,060
160	Total fixed assets, net of accumulated depreciation	7,351,101	1,080,855
180	Total noncurrent assets	7,351,101	1,080,855
190	Total Assets	\$ 7,762,112	\$1,223,222

Housing Choice Vouchers <u>14.871</u>	(HOPE VI) Revitalization of Severely Distressed Public Housing <u>14.866</u>	<u>Totals</u>
\$ 214,421	\$ 1,081	\$ 245,055
		<u>47,907</u>
<u>214,421</u>	<u>1,081</u>	<u>292,962</u>
379		379
	23,482	244,294
		434
		65,042
		(54,958)
		11,964
		<u>(11,964)</u>
<u>379</u>	<u>23,482</u>	<u>255,191</u>
		73,158
<u>169,185</u>		<u>340,615</u>
<u>169,185</u>		<u>413,773</u>
<u>383,985</u>	<u>24,563</u>	<u>961,926</u>
		121,807
		9,000,421
		70,247
		419,652
		7,664,083
		(8,870,314)
	<u>419,168</u>	<u>445,228</u>
	<u>419,168</u>	<u>8,851,124</u>
	<u>419,168</u>	<u>8,851,124</u>
<u>\$ 383,985</u>	<u>\$ 443,731</u>	<u>\$ 9,813,050</u>

BENTON HARBOR HOUSING COMMISSION
FINANCIAL DATA SCHEDULE (CONTINUED)
 Year Ended September 30, 2005
 =====

FDS Line Item No.		Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
LIABILITIES and NET ASSETS			
	Liabilities:		
	Current Liabilities:		
312	Accounts payable<=90 days	\$ 94,558	\$
321	Accrued wage/payroll taxes payable	18,857	
322	Accrued compensated absences	19,715	
332	Accounts payable-PHA projects		
333	Accounts payable-other government	84,981	
341	Tenant security deposits	47,907	
342	Deferred revenues	7,589	
345	Other current liabilities	25,893	
347	Interprogram due to	<u>14,967</u>	<u>142,367</u>
310	Total current liabilities	<u>314,467</u>	<u>142,367</u>
	Noncurrent Liabilities:		
353	Noncurrent liabilities-other	10,902	
354	Accrued compensated absences	<u>35,159</u>	
350	Total noncurrent liabilities	<u>46,061</u>	
300	Total liabilities	<u>360,528</u>	<u>142,367</u>
	Net Assets:		
508.1	Invested in capital assets	<u>7,351,101</u>	<u>1,080,855</u>
508	Total invested in capital assets	7,351,101	1,080,855
512.1	Unrestricted net assets	<u>50,483</u>	
513	Total Net Assets	<u>7,401,584</u>	<u>1,080,855</u>
600	Total Liabilities and Net Assets	<u>\$ 7,762,112</u>	<u>\$1,223,222</u>

Housing Choice Vouchers <u>14.871</u>	(HOPE VI) Revitalization of Severely Distressed Public Housing <u>14.866</u>	<u>Totals</u>
\$ 1,550	\$	\$ 96,108
		18,857
		19,715
2,931		2,931
		84,981
		47,907
		7,589
		25,893
<u>158,718</u>	<u>24,563</u>	<u>340,615</u>
<u>163,199</u>	<u>24,563</u>	<u>644,596</u>
		10,902
		<u>35,159</u>
		46,061
<u>163,199</u>	<u>24,563</u>	<u>690,657</u>
	<u>419,168</u>	<u>8,851,124</u>
	419,168	8,851,124
<u>220,786</u>		<u>271,269</u>
<u>220,786</u>	<u>419,168</u>	<u>9,122,393</u>
<u>\$ 383,985</u>	<u>\$ 443,731</u>	<u>\$ 9,813,050</u>

BENTON HARBOR HOUSING COMMISSION
FINANCIAL DATA SCHEDULE (CONTINUED)
Year Ended September 30, 2005

		=====	
FDS Line Item No.		Low Rent Program 14.850	Capital Fund Program 14.872
	Revenue:		
703	Net tenant rental revenue	\$ 541,371	\$
704	Tenant revenue-other	48,520	
705	Total tenant revenue	589,891	
706	HUD PHA grants	941,318	286,288
706.1	Capital grants		907,269
711	Investment income-unrestricted	3,905	
714	Fraud recovery		
715	Other revenue	3,397	
700	Total revenue	1,538,511	1,193,557
	Expenses:		
	Administrative:		
911	Administrative salaries	264,378	56,200
912	Auditing fees	8,795	
914	Compensated absences	(3,544)	
915	Employee benefit contributions		
	-administration	148,852	16,000
916	Other operating-administrative	173,196	4,170
	Tenant Services:		
924	Tenant services-other	2,160	17,920
	Utilities:		
931	Water	64,266	
932	Electricity	108,839	
933	Gas	162,363	
	Ordinary maintenance and operation:		
941	Ordinary maint & oper-labor	165,063	10,000
942	Ordinary maint & oper-materials & other	74,432	
943	Ordinary maint & oper-contract costs	200,452	985
945	Employee benefit contributions	92,793	
	Protective services:		
952	Protective services-other contract costs		51,143
	General expenses:		
961	Insurance premiums	122,675	
963	Payments in lieu of taxes	18,586	
964	Bad debt-tenant rents	37,662	
969	Total operating expenses	1,640,968	156,418

Housing Choice Vouchers <u>14.871</u>	(HOPE VI) Revitalization of Severely Distressed Public Housing <u>14.866</u>	<u>Totals</u>
\$	\$	\$ 541,371
		<u>48,520</u>
		589,891
747,465		1,975,071
	419,168	1,326,437
1,476		5,381
1,221		1,221
<u>3,144</u>		<u>6,541</u>
<u>753,306</u>	<u>419,168</u>	<u>3,904,542</u>
43,693		364,271
		8,795
		(3,544)
15,500		180,352
7,465		184,831
		20,080
		64,266
		108,839
		162,363
		175,063
		74,432
		201,437
		92,793
		51,143
		122,675
		18,586
		<u>37,662</u>
<u>66,658</u>		<u>1,864,044</u>

BENTON HARBOR HOUSING COMMISSION
FINANCIAL DATA SCHEDULE (CONTINUED)
Year Ended September 30, 2005

=====

FDS Line Item No.		Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
970	Excess operating revenue over operating expenses	(<u>102,457</u>)	<u>1,037,139</u>
	Expenses continued:		
	Other expenses:		
972	Casualty losses	450	
973	Housing assistance payments		
974	Depreciation expense	<u>637,590</u>	<u>29,854</u>
	Total other expenses	<u>638,040</u>	<u>29,854</u>
900	Total expenses	<u>2,279,008</u>	<u>186,272</u>
	Excess (deficiency) of operating revenue over (under) expenses before other financing sources (uses)	(740,497)	1,007,285
	Other Financing Sources (Uses):		
1001	Operating transfers in (out)	<u>129,870</u>	(<u>129,870</u>)
1000	Excess (deficiency) of operating revenue over (under) expenses	(610,627)	877,415
1103	Beginning Net Assets	7,800,084	409,058
1104	Prior period adjustments, equity transfers and correction of errors	<u>212,127</u>	(<u>205,618</u>)
	Ending Net Assets	<u>\$ 7,401,584</u>	<u>\$1,080,855</u>

Housing Choice Vouchers <u>14.871</u>	(HOPE VI) Revitalization of Severely Distressed Public Housing <u>14.866</u>	<u>Totals</u>
<u>686,648</u>	<u>419,168</u>	<u>2,040,498</u>
465,852		450 465,852 <u>667,444</u>
<u>465,852</u>		<u>1,133,746</u>
<u>532,510</u>		<u>2,997,790</u>
220,796	419,168	906,752
<u>220,796</u>	<u>419,168</u>	<u>906,752</u>
5,454		8,214,596
<u>(5,464)</u>		<u>1,045</u>
<u>\$ 220,786</u>	<u>\$ 419,168</u>	<u>\$ 9,122,393</u>

**Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an
Audit of Financial Statements Performed in
Accordance with Government Auditing Standards**

Board of Housing Commissioners
Benton Harbor Housing Commission
Benton Harbor, Michigan

I have audited the financial statements of the business-type activities of the Benton Harbor Housing Commission, Michigan, (Housing Commission) as of and for the year ended September 30, 2005, which collectively comprise the Housing Commission's basic financial statements and have issued my report thereon dated February 21, 2007. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the Housing Commission's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over financial reporting and its operation that I consider to be material weaknesses. However, I noted certain matters that I reported to management of the Housing Commission, in a separate letter dated February 21, 2007.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Housing Commission's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which

Report on Internal Control over Financial Reporting
and on Compliance and Other Matters Based on an
Audit of Financial Statements Performed in Accordance
with *Government Auditing Standards*
Benton Harbor Housing Commission
Page Two

Compliance and Other Matters (continued)

could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the audit committee, management, Board of Housing Commissioners, the Michigan Department of Treasury, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Bary E. Jankowski, CPA

February 21, 2007

**Report on Compliance with Requirements
Applicable To Each Major Program and
Internal Control over Compliance
in Accordance with OMB Circular A-133**

Board of Housing Commissioners
Benton Harbor Housing Commission
Benton Harbor, Michigan

Compliance

I have audited the compliance of the Benton Harbor Housing Commission, Michigan, (Housing Commission) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2005. The Housing Commission's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Housing Commission's management. My responsibility is to express an opinion on the Housing Commission's compliance based on my audit.

I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Housing Commission's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination of the Housing Commission's compliance with those requirements.

As described in items 05-1, 05-3, 05-5, 05-6, and 05-7, in the accompanying schedule of findings and questioned costs, the Housing

Report on Compliance with Requirements
Applicable to Each Major Program and
Internal Control Over Compliance in
Accordance with OMB Circular A-133
Benton Harbor Housing Commission
Page Two

Compliance (continued)

Commission, did not comply with requirements regarding eligibility and special tests and provisions applicable to the Housing Choice Voucher Program. Also, as described in items 05-2, 05-8, and 05-9 in the accompanying schedule of findings and questioned costs, the Housing Commission, did not comply with requirements regarding eligibility and special tests and provisions that are applicable to its Low Rent Program. Also, as described in item 05-4 in the accompanying schedule of findings and questioned costs, the Housing Commission, did not comply with requirements regarding eligibility and special tests and provisions applicable to the HOPE VI program. Compliance with such requirements is necessary, in my opinion, for the Housing Commission, to comply with requirements applicable to those programs.

In my opinion, except for the noncompliance described in the preceding paragraph, the Housing Commission, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2005.

Internal Control Over Compliance

The management of the Housing Commission is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing my audit, I considered the Housing Commission's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose of expressing my opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

I noted certain matters involving the internal control over financial reporting and its operation that I consider to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my judgment, could adversely affect the Housing Commission's, ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 05-1, 05-2, 05-3, and 05-4.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants

Report on Compliance with Requirements
Applicable to Each Major Program and
Internal Control Over Compliance in
Accordance with OMB Circular A-133
Benton Harbor Housing Commission
Page Three

Internal Control Over Compliance (continued)

caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions, described above, I consider items 05-1 and 05-2 to be a material weaknesses.

This report is intended solely for the information and use of the audit committee, management, Board of Housing Commissioners, the Michigan Department of Treasury, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Sony E. Kendrick, M.P.C.

February 21, 2007

BENTON HARBOR HOUSING COMMISSION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 September 30, 2005
 =====

A. Summary of Audit Results

Financial Statements

1. Type of Auditor's Report issued: Unqualified
2. Internal control over financial reporting:
 - a. Material weakness identified No
 - b. Reportable condition identified that is not a material weakness No
3. Noncompliance material to financial statements: No

Federal Awards

1. Internal control over major programs:
 - a. Material weakness identified Yes
 - b. Reportable condition that is not a material weakness Yes
2. Type of auditor's report issued on compliance for major programs Qualified
3. Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133 Yes
4. Identification of major programs:

<u>CFDA Number</u>	<u>Federal Program</u>	<u>Amount Expended</u>	<u>Major Program</u>	<u>Compliance Requirement</u>	<u>Questioned Costs</u>	<u>Audit Finding</u>
14.850	Low Rent Public Housing	\$ 941,318	Yes	E,N	N/A	05-2,8,9 04-1,2
14.872	Capital Fund Program	1,193,557	Yes	I	N/A	04-1
14.871	Housing Choice Vouchers	747,465	Yes	I,E,N	N/A	04-1 05-1,3,5 05-6,7
14.866	HOPE VI	419,168	Yes	E,N	N/A	04-1 05-4
	Total	<u>\$3,301,508</u>				

8. The threshold for distinguishing Types A and B programs was \$300,000.
9. The Housing Commission was not determined to be a low-risk auditee.

BENTON HARBOR HOUSING COMMISSION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
September 30, 2005
=====

B. Financial Statement Findings None

C. Federal Award Findings and Questioned Costs

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Housing Choice Voucher Program - CFDA No. 14.871

05-1 Year Ended September 30, 2005

Condition and Criteria: Required documentation to determine eligibility is missing in the tenant files.

Effect: It is difficult to determine if the tenants are eligible for the Voucher without the proper documentation available to review.

Cause: The former staff members in charge of this program did not perform due diligence in their duties.

Population and Items Tested: We selected at random seven(7) tenant files to test. There was a population of 127 tenant files to choose from.

We looked for the following documentation in the files:

	<u># of Exceptions</u>
a. Form HUD-50058	0
b. Privacy Act Notice	3
c. Proper Verification of Income	0
d. Inspection Report	0
e. Lease	0
f. Application	1
g. Copy of Photo I.D.	4
h. Copy of Proof of Social Security Number	4
i. Birth Certificate	5
j. Annual Review	0
k. Worksheet for HUD-50058	0
l. Notice of Rent Adjustment	0
m. Criminal Background Check	7
n. Declaration of 214 Status	0
o. Rent Reasonableness Test	3
p. Lease Addendum	0
q. HAP Contract	0
	<u>27</u>

C. **Federal Award Findings and Questioned Costs (continued)**

05-1 (continued) Year Ended September 30, 2005

Population and Items Tested (continued):

Out of a possible 119, there were 27 exceptions from this test. This represents a 22.69% exception rate.

Auditor's Recommendation: I recommend that the Housing Commission immediately begin correcting the lack of documentation listed above for all tenant files.

Grantee Response: We are continuing the process of obtaining the missing documentation for all Housing Choice Voucher tenants.

Seven tenant files were looked at and applicable to this review. The following is a short summary of exceptions:

<u>File</u>	<u>Client Name</u>	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>	<u>7</u>	<u>8</u>
1	C	x						x	
2	R	x						x	
3	S	x			x	x		x	
4	B	x			x	x		x	
5	G	x			x	x		x	
6	W	x				x		x	
7	P	x						x	
Number of Hits		<u>7</u>	<u>0</u>	<u>0</u>	<u>3</u>	<u>4</u>	<u>0</u>	<u>6</u>	<u>0</u>
% of Hits		<u>100%</u>	<u>0%</u>	<u>0%</u>	<u>43%</u>	<u>57%</u>	<u>0%</u>	<u>86%</u>	<u>0%</u>

Legend

1. No proper evidence that a criminal background check was conducted.
2. Income verification not conducted.
3. Form HUD-50058 could not be located in the tenant files.
4. HUD Form 9886, Release of Information/Privacy Act Notice not in file or it was not properly completed.
5. Social Security Number not verified with required documentation.
6. The Housing Commission could not locate the file.
7. The Housing Commission could not locate missing documentations.
8. The tenant was not eligible to participate in the program.

C. **Federal Award Findings and Questioned Costs (continued)**

Low Rent Public Housing Program - CFDA No. 14.850

05-2 Year Ended September 30, 2005

Condition and Criteria: Documentation to determine eligibility is missing in the tenant files.

Effect: It is difficult to determine if the tenants are eligible for the program without the proper documentation available to review.

Cause: The staff in charge of this program did not obtain all of the recommended documentation for the files.

Population and Items Tested: We selected ten(10) files to test.

We looked for the following required documentation in the files:

	<u># of Exceptions</u>
a. HUD Form-50058	0
b. Privacy Act Notice	2
c. Proper Verification of Income	2
d. Inspection Report	2
e. Lease	4
f. Application	5
g. Copy of Photo I.D.	6
h. Copy of Social Security Card	7
i. Birth Certificate	8
j. Annual Review	0
k. Worksheet for HUD Form-50058	0
l. Notice of Rent Adjustment	0
m. Criminal Background Check	10
n. Declaration of 214 Status	3
	<u>49</u>

Out of a possible 140, there were 49 exceptions from this test. This represents an exception rate of 35.0%.

Auditor's Recommendation: It is recommended that the Housing Commission immediately begin correcting the lack of documentation listed above for all tenant files. In some cases the document was in the file, but was not completed properly and/or in its entirety. It is recommended that greater care be taken in the future to ensure that all documents are completed properly.

Grantee Response: We have been making progress in getting the tenant files in order from prior years and will correct the exceptions listed above.

C. Federal Award Findings and Questioned Costs (continued)

Low Rent Public Housing Program - CFDA No. 14.850

05-2 (continued) Year Ended September 30, 2005

Ten tenant files were looked at and applicable to this review.
The following is a short summary of exceptions:

<u>File</u>	<u>Client Name</u>	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>	<u>7</u>	<u>8</u>
1	H	x							
2	B	x				x		x	
3	J	x				x		x	
4	C	x				x		x	
5	H	x				x		x	
6	D	x	x			x		x	
7	P	x			x			x	
8	S	x			x	x		x	
9	M	x	x					x	
10	K	x				x		x	
Number of Hits		<u>10</u>	<u>2</u>	<u>0</u>	<u>2</u>	<u>7</u>	<u>0</u>	<u>10</u>	<u>0</u>
% of Hits		<u>100%</u>	<u>20%</u>	<u>0%</u>	<u>20%</u>	<u>70%</u>	<u>0%</u>	<u>90%</u>	<u>0%</u>

Legend

1. No proper evidence that a criminal background check was conducted.
2. Income verification not conducted.
3. Form HUD-50058 could not be located in the tenant files.
4. HUD-Form 9886, Release of Information/Privacy Act Notice is not in the file, or it is not completed properly for the fiscal year reviewed.
5. Social Security Number is not verified with required documentation.
6. The Housing Commission could not locate the file.
7. The Housing Commission could not locate missing documents.
8. The tenant was not eligible to participate in the program.

C. **Federal Award Findings and Questioned Costs (continued)**

Housing Choice Voucher Program - CFDA No. 14.871

05-3 Year Ended September 30, 2005

Condition and Criteria: We tested tenant files of HOPE VI clients now in the Section 8 Program. Documentation to determine eligibility is missing in the tenant files.

Effect: It is difficult to determine if the tenants are eligible for the Voucher without the proper documentation to review.

Cause: The former Section 8 Housing Choice Voucher Coordinator did not obtain all of the documentation necessary for the files.

Population and Items Tested: There were only three(3) HOPE VI tenants who were in the Section 8 program during the 2005 fiscal year. All three(3) tenant files were tested.

We looked for the following documentation in the files:

	<u># of Exceptions</u>
a. Form HUD-50058	0
b. Privacy Act Notice	0
c. Lease	0
d. Annual Review (move-in)	0
e. Worksheet for HUD-50058	0
f. Notice of Rent Adjustment	0
g. Declaration of 214 Status	3
h. HAP Contract	<u>1</u>
	<u>4</u>

Out of a possible 24, there were four(4) exceptions from this test. This represents a 16.67% exception rate.

Auditor's Recommendation: It is recommended that the Housing Commission obtain properly completed 214 Status forms for the appropriate tenants in this program.

Grantee's Response: We are in the process of obtaining the Declaration of 214 Status for these tenants.

C. Federal Award Findings and Questioned Costs (continued)

Housing Choice Voucher Program - CFDA No. 14.871

05-3 (continued) Year Ended September 30, 2005

Three tenant files of former HOPE VI tenants were looked at and applicable to this review. The following is a short summary of exceptions:

<u>File</u>	<u>Client Name</u>	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>
1	H					
2	D					
3	J				X	
Number of Hits		<u>0</u>	<u>0</u>	<u>0</u>	<u>1</u>	<u>0</u>
% of Hits		<u>0%</u>	<u>0%</u>	<u>0%</u>	<u>33%</u>	<u>0%</u>

Legend

1. Form HUD-50058 could not be located in the tenant files.
2. HUD Form 9886, Release of Information/Privacy Act Notice not in the file or not properly completed.
3. The Housing Commission could not locate the file.
4. The Housing Commission could not locate missing documents.
5. the tenant was not eligible to participate in the program.

C. Federal Award Findings and Questioned Costs (continued)

HOPE VI Program - CFDA No. 14.866

05-4 Year Ended September 30, 2005

Condition and Criteria: Documentation is missing in the tracking files.

Effect: The tenants progress may not be properly monitored.

Cause: The staff in charge of these files during the 2005 fiscal year did not obtain all of the documents for the files.

Population and Items Tested: We selected the three(3) tenants who were in the Section 8 program along with three(3) additional tenants using a haphazard method.

We looked for the following documentation in the files:

	<u># of Exceptions</u>
a. HOPE VI Resident Home Request Form	2
b. Current/Initial Assessment	1
c. Notice of Eligibility for Relocation/ 90 day notice	3
d. Notice of Individual Service Plan Meeting	0
e. Section 8 Voucher Information Form	<u>1</u>
	<u>7</u>

Out of a possible 30, there were seven(7) exceptions from this test. This represents a 23.34% exception rate.

Auditor's Recommendation: It is recommended that the HOPE VI program begin correcting the missing documentation where possible for all tenant files.

Grantee Response: We agree with the recommendation and will correct.

C. Federal Award Findings and Questioned Costs (continued)

HOPE VI Program - CFDA No. 14.866

05-4 (continued) Year Ended September 30, 2005

Six tenant files were looked at and applicable to this review.
The following is a short summary of exceptions:

<u>File</u>	<u>Client Name</u>	<u>1</u>	<u>2</u>	<u>3</u>
1	D			
2	P			
3	A		x	
4	H		x	
5	W		x	
6	J		x	
Number of Hits		<u>0</u>	<u>4</u>	<u>0</u>
% of Hits		<u>0%</u>	<u>67%</u>	<u>0%</u>

Legend

1. The Housing Commission could not locate the file.
2. The Housing Commission could not locate missing documents.
3. The HOPE VI tenant was not eligible to participate in the program.

C. **Federal Award Findings and Questioned Costs (continued)**

Housing Choice Voucher Program - CFDA No. 14.871

05-5 Year Ended September 30, 2005

Condition and Criteria: There is not evidence in the files that a criminal background check was conducted.

Effect: Ineligible tenants may be in the program.

Cause: The former staff members in charge of the program either did not do criminal background checks for tenants, or did not provide evidence in the file that they were done.

Population and Items Tested: Seven(7) tenant files out of a population of 127 were tested. Of the seven(7) files tested, seven(7) did not contain evidence of a criminal background check. This represents an exception rate of 100%.

Auditor's Recommendation: It is recommended that a criminal background check be performed on all applicants before they are admitted to the program. A new form or additional entries on current forms should be used to document the files. The criminal background check itself may not be kept in the file unless an appeal or hearing is still pending for the tenant. In addition, the Housing Commission may want to perform criminal background checks on all existing tenants to evict tenants who may cause problems or increase costs to the Housing Commission in the future.

Grantee Response: We are not sure if criminal background checks were being done by former staff personnel, but we are obtaining them now.

C. Federal Award Findings and Questioned Costs (continued)

Housing Choice Voucher Program - CFDA No. 14.871

05-6 Year Ended September 30, 2005

Condition and Criteria: There is not sufficient evidence to substantiate that new tenants were selected correctly from the waiting list.

Effect: Applicants on the waiting list may have been denied the opportunity to become tenants in the voucher program on a timely basis.

Cause: The staff person in charge of this program did not select the applicants correctly and/or did not maintain documentation that they were selected in the correct order.

Population and Items Tested: There was not sufficient documentation to do a test of new tenants to the program. implemented yet for any of the tenants.

Auditor's Recommendation: It is recommended that a procedure be put in place to document proper waiting list selection of applicants.

Grantee's Response: We have selected the tenants from the waiting list properly, but we will consider a procedure to document that the tenant was selected properly from the waiting list.

Housing Choice Voucher Program - CFDA No. 14.871

05-7 Year Ended September 30, 2005

Condition and Criteria: A rent reasonable test is required to be performed when the property is initially leased, and anytime there is an increase in rent.

Effect: The rent to the owner may not be reasonable in comparison to other similar unassisted units.

Cause: The former staff person in charge of this program did not do a rent reasonable test in all required cases.

Population and Items Tested: Of the four(4) tenant files tested, there were three(3) that did not have a rent reasonable test done.

Auditor's Recommendation: It is recommended that the Housing Commission perform a rent reasonableness test in all required situations in the future.

Grantee Response: We will in the future perform the rent reasonableness test.

C. Federal Award Findings and Questioned Costs (continued)

Low Rent Public Housing Program - CFDA No. 14.850

05-8 Year Ended September 30, 2005

Condition and Criteria: There is not evidence in the files that a criminal background check was performed.

Effect: Ineligible tenants may be in the program.

Cause: The staff person in charge of this program either did not do criminal background checks for tenants, or did not provide evidence in the file that they were done.

Population and Items Tested: Ten(10) tenant files were tested. Of the ten(10) files tested, nine(9) did not contain evidence of a criminal background check. One file had the actual report in it. This represents an exception rate of 100%.

Auditor's Recommendation: It is recommended that a criminal background check be performed on all applicants before they are admitted to the program. A new form or additional entries on current forms could be used to document the files. The criminal background check itself may not be kept in the file unless an appeal or hearing is still pending for that tenant. In addition, the Housing Commission may want to perform criminal background checks on all existing tenants to evict tenants who may cause problems or increase costs to the Housing Commission in the future.

Grantee Response: In the future we will implement the auditor's recommendation.

C. Federal Award Findings and Questioned Costs (continued)

Low Rent Public Housing Program - CFDA No. 14.850

05-9 Year Ended September 30, 2005

Condition and Criteria: All files to not contain the required documentation of Social Security Numbers.

Effect: Ineligible tenants may be in the program.

Cause: The staff in charge of this program did not obtain the required documentation for the tenant files.

Population and Items Tested: Ten(10) tenant files were tested. Of the 10 files tested, seven(7) did not contain the required social security documentation in the files. This represents an exception rate of 70%.

Auditor's Recommendation: It is recommended that the Housing Commission obtain the required social security documentation for the tenant files. In addition, other documentation was missing or not properly completed in the files. Examples would be the lease(4 of 10), application(5 of 10), picture I.D. (6 of 10), privacy act (3 of 10), declaration of 214 (citizenship) status (3 of 10) and birth certificates (8 of 10). It is recommended that this documentation be obtained for the files and properly completed.

Grantee Response: We are in the process of correcting the tenant files for the missing documentation.

BENTON HARBOR HOUSING COMMISSION
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
September 30, 2005
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Findings 03-01, 04-03, 04-04 have been cleared.

Finding 04-01: HUD on Site Review. There is an Memorandum of Agreement (MOA) that the Housing Commission has been working with HUD to clear up.

Finding 04-02: Excessive Accounts Receivable, this a repeat finding.

Finding 04-05: Tenant Accounting Discrepancies-Low Rent Program. See current year finding 05-2.

Finding 04-06: Tenant Accounting Discrepancies-Housing Choice Vouchers. See current year finding 05-1.

BENTON HARBOR HOUSING COMMISSION
ADJUSTING JOURNAL ENTRIES
SEPTEMBER 30, 2005

=====

<u>Account Number</u>	<u>Account Name</u>	<u>Debit</u>	<u>Credit</u>
LOW RENT PROGRAM			

There were no adjusting journal entries necessary.